



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 25 1996

Mr. Robert L. Meyer
Director, Housing Revitalization Support Office
Office of the Secretary of Defense
1745 Jefferson Davis Highway
Suite 105
Arlington, VA 22202

Dear Mr. Meyer:

The revised guidelines that the Office of Management and Budget and the Department of Defense should use for housing projects authorized by the Housing Revitalization Act (Public Law 104-106) are enclosed. These guidelines replace those in my letter of September 12, 1996. If you have any questions, please call John Schuhart on (202) 395-4735.

Sincerely,

Phoebe N. Vickers
Deputy Associate Director
for National Security

SCORING OF DoD's HOUSING REVITALIZATION INITIATIVES

Housing Revitalization Act Authorities

The Housing Revitalization Act of 1995 provides the DoD with an array of authorities, or tools, that may be used in attracting private capital investment for revitalizing the stock of military housing. The Act provides seven broad categories of tools:

- Direct loans
- Loan guarantees
- Rental income and occupancy guarantees
- Leases, existing or build to lease
- Investments, limited partnerships and stock/bond ownership
- Differential lease payments
- Conveyance or lease of existing government property and facilities.

In many cases, scoring will determine the types of tools that will be selected for a revitalization effort. Each privatization agreement that DoD enters into must be "scored" for budget purposes.

Scoring Determines Obligations to be Recorded

"Scoring" seeks to determine the amount of cost and risk associated with the use of each tool that should be recognized and recorded as an obligation of the Department of Defense at the time a contract is signed. Sufficient appropriations must be available to cover the amount obligated for each contract. The Department, with OMB guidance, will determine the amount of funds to be obligated to cover future costs that are associated with the use of the tools provided in the Housing Revitalization Act.

Direct Loans and Loan Guarantees

Two important financing tools available to DoD for housing revitalization efforts are direct loans and loan guarantees. Each provides a government subsidy that must be considered and accounted for in making financing decisions. For direct loans, the government provides funds directly to a private borrower and agrees to absorb a portion of the cost of a default by the borrower. For loan guarantees, the government makes a binding commitment to absorb a portion of the cost of default on credit extended by a private financial institution to a private borrower. The budget impact of using each of these tools must be estimated and sufficient funds obligated to cover the estimated cost to the government.

The amount of obligations to be recorded for a direct loan or loan guarantee depends on the subsidy rate. The rate represents, in net present value terms, the cost of estimated defaults and interest rate subsidy, if any, over the life of the loan or loan guarantee. For example, if the subsidy rate is 25 percent, obligations of \$10 million would support \$40 million of loans

Interpretation of Government and Private Sector Participation

The factors that HRSO and OMB will consider Federal government participation include, but are not limited to, the following:

- Value of units conveyed to private developer
- 100 percent of the loan amount guaranteed by the Federal government
- 100 percent of the amount of a direct loan by the Federal government
- Cash investment and income or occupancy guarantees

The factors that HRSO and OMB will consider private sector participation include, but are not limited to, the following:

- Portion of net income generated by the units utilized to fund construction costs
- Cash
- Value of assets other than cash (excluding assets conveyed to private sector by the Federal government)
- Cash reserves from net income set aside for capital improvements

Utilities

If DOD contracts to pay for utilities for more than one year, the net present value of the expected payments will be recorded as an obligation and considered to be government participation. Contracts for utility payments that are subject to future appropriations will not be considered to be government participation.

or loan guarantees. Before funds are obligated for a loan or loan guarantee, appropriations sufficient to cover the subsidy cost of each project must be available in the Family Housing Improvement Fund.

For both on-base and off-base revitalization projects, substantial private sector risk is necessary to conform with the provisions of the Federal Credit Reform Act. At least 20 percent of the financing for a project must be provided from non-federal sources. The full amount of the loan will be recorded as an obligation if:

- A guarantee exceeds 80 percent of the cost of a project;
- Direct loans from the Federal government exceed 80 percent of the cost of the project;
- The Federal government's total participation (see Interpretation of Government and Private Sector Participation on the last page of the guidelines) exceeds 80 percent of the cost of a project; or
- There is not, for on-base projects, substantial private sector risk.

Without substantial private sector risk, the full amount of the loan or guarantee will be recorded as an obligation. This is especially critical for on-base projects, given the inherently governmental nature of any construction and federal use of projects built on federal land.

Differential payments, Income or Occupancy Guarantees and Leases

Differential payments, income or occupancy guarantees and leases provide, or seek to guarantee, an income stream to a housing provider. Use of these authorities will be scored "upfront", with the entire net present value of the lease or commitment recorded as an obligation at the time a contract is finalized.

Investments

The Department may acquire part ownership of a corporation or limited partnership through the purchase of stocks, bonds, or other types of equity. Use of these authorities will be scored "upfront", equal to the cash investment.

Other Incentives

The Department may convey property in exchange for housing or an equity investment in a corporation or limited partnership. There will be no scoring impact if there is no cash income or expenditure.

OMB Review Process

OMB will work with the Housing Revitalization Support Office (HRSO), prior to issuance of a Request For Proposal (RFP) and prior to final contract award, to review and

approve/amend the HRSO's scoring determinations for each proposed project. If the parameters of a project remain consistent from the RFP development stage through final contract award, OMB does not anticipate making significant changes after scoring determinations are made during the RFP development stage. Items to be reviewed include, but are not limited to:

- percentage of government and private sector participation;
- if a project qualifies for credit reform scoring;
- credit reform subsidy estimates; and
- total obligations to be recorded at time of contract signing.

OMB will review HRSO scoring determinations as quickly as possible, especially during the period immediately preceding final contract award.

Scoring Summary

TOOLS

SCORING IMPACT

LOANS

Direct Loans

First Mortgages

Obligations will be recorded equal to the estimated amount of the credit subsidy. The credit subsidy represents the net present value of: 1) the difference between the interest rate on the loan and the interest rate on U.S. Treasury securities of comparable maturity to the loan term, plus 2) the estimated cost of default, net of recoveries.

Second Mortgages

Loans that subordinate the government's position are scored like first mortgages. However, the credit subsidy rate may be higher because the government is not the first creditor to be paid in case of default.

Soft Second Mortgages

Loans without a fixed repayment schedule will be scored as grants, or equal to 100% of the loan.

Loan Guarantees

Obligations will be recorded equal to the estimated amount of the credit subsidy. The credit subsidy represents the net present

value of the cost of estimated defaults, net of recoveries. Guaranties of Federally tax-exempt bonds will be recorded equal to 100 percent of the amount of the guarantee.

COMMITMENTS

Differential Payments

Obligations will be recorded equal to the estimated net present value of the differential payment stream, over the term of the contract.

Income or Occupancy Guarantee

Obligations will be recorded equal to the estimated net present value of the total rental payments being guaranteed over the term of the lease.

Leases

Obligations will be recorded equal to the net present value of lease payments over the term of the lease.

INVESTMENTS

Investment in Profit/Non-profit corporations, Limited Partnership, stock et al.

Obligations will be recorded equal to the total cash investment.

OTHER INCENTIVES

Conveyance of Property

Conveyance of property has no direct scoring impact. Proceeds from land conveyance are subject to appropriation before obligation.

Land for Housing Swap

Conveyance of property in exchange for housing of equal value has no direct scoring impact. Any cash proceeds resulting from a land conveyance are subject to appropriation before obligation.
